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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000135

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DEPARTMENT PLEASE PASS TO NSC FOR ADAM STERLING

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TAGS: PGOV PREL ECON KDEM

SUBJECT: BEST SERVED COLD: ORBAN ON REFORM, ENERGY SECURITY, AND RELATIONS WITH THE GYURCSANY GOVERNMENT

REF: A) BUDAPEST 100 B) BUDAPEST 105 AND PREVIOUS

Classified By: POL/C ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: As guest of honor at a dinner hosted by Ambassador Foley January 30, a charming and measured FIDESZ President Viktor Orban criticized the Gyurcsany government's implementation of its austerity package, questioned its commitment to reform, and called for EU action on energy security. Orban noted recent friction within FIDESZ (ref a) but asserted that he is still "the only one" capable of uniting its disparate elements. Orban is test-marketing a mix of populism and trans-Atlanticism as FIDESZ discusses more substantive engagement in the public debate. This would be an important step in the long term. In the short term, however, Orban still predicts - and perhaps anticipates - tests to the Gyurcsany government's survival in the coming months. End Summary.

THE ECONOMY: BLACK AND WHITE ... AND GRAY

¶2. (C) Orban opened discussion by addressing the economy, asserting that Hungary should focus on incorporating the gray market, reducing the tax burden on Hungarian businesses, and combatting corruption. He reiterated his commitment to increasing employment opportunities, and maintained that lower taxes would increase state revenue by bringing unreported economic activity into the mainstream. Separately, he added, the government must "crush the black market."

¶3. (C) Orban believes that Prime Minister Gyurcsany is backing off his reform agenda. He views the PM's recent references to mistakes in his plan's preparation and presentation as a self-indictment, and continues to criticize the government's plan as a reduction in spending without fundamental structural reform. Ultimately, he believes the government will fail due to Gyurcsany's "an enormous agenda ... and lack of focus." He specifically dismissed Gyurcsany's "belated" efforts to organize bipartisan round tables to discuss the reform agenda as an effort to "bring the opposition down with him." (Note: Even as PM Gyurcsany was meeting with the opposition MDF to discuss the reform agenda, FIDESZ officials were formally challenging the constitutionality of the government's proposals on local administration, taking yet another issue to the courts rather than the bargaining table. End Note.)

¶4. (C) Orban reserved particular criticism for the Prime Minister's approach to disbursing EU funds. He accused the government of channeling money to "non-productive elements of society" through a government body beyond parliamentary oversight and regional commissions controlled by political loyalists. Their goal, he concluded, is to maintain the trappings of a welfare state in order to retain the support of the MSZP's aging demographic. This charge echoes the view

of one businessman, who notes that many failed MSZP candidates from the October local elections have "been thrown out the door ... only to come back in through the window" through regional development commissions stacked with party members. Orban charged that even worthwhile concepts such as plans to develop high-tech centers in Szeged and Debrecen will fail due to plans that border on the incoherent.

ENERGY SECURITY: SPEAKING SOFTLY

¶15. (C) Turning to energy security, Orban underscored his concern regarding the preponderance of Russian influence and expressed hope that the issue could galvanize the European Union (ref b). He is trying to work with like-minded colleagues in the European People's Party, but his visible discomfort in discussion telegraphed his uncertainty regarding Hungary's ability to influence EU institutions. Orban also claimed that Russia has intervened to keep the forint artificially strong through an agreement between PM Gyurcsany and President Putin, thus providing a safety net during the government's austerity program. That said, he still cited Russian moves to develop pipeline options that would exclude Hungary as evidence that Russia's favor is fleeting. He also noted his intention to tone down his public rhetoric while working the issue given the political risks of incurring Russia's wrath.

FIDESZ: "TWO OR THREE PARTIES" ... BUT ONLY ONE LEADER

¶16. (C) Although Orban clearly fears Russian intentions, he candidly admitted that FIDESZ includes many who are more concerned by Washington's status as the sole superpower than they are by Moscow (or, for that matter, Tehran, Pyongyang, and Caracas). He also insisted that there is nothing he can

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do to influence the anti-American strain in the FIDESZ-affiliated press.

¶17. (C) Orban underscored FIDESZ's strong support among younger Hungarians, describing the party as a "broad-based" organization committed to "human dignity, Christian values, and the Hungarian national identity." He conceded, however, that it "could easily be two or three parties." Conservative commentator Sebastian Gorka, who has indicated his interest in starting a new center-right party, also believes that FIDESZ is subject to increasing strain among its principal factions. Although Orban commented that "there will always be criticism," he concluded that only his own leadership can unite FIDESZ's "many branches."

RITES OF SPRING

¶17. (C) Orban did not preclude renewed confrontation with the government. He predicts the upcoming FIDESZ convention will be a "defining event," and will respond to PM Gyurcsany's "state of the union" address in a public speech the week of February 12. He promised to publish a rival governing program in March, and FIDESZ parliamentary faction leader Tibor Navracsics told an AmCham audience last week that the party will form a shadow cabinet in the spring to better present its policy recommendations. Orban also remarked that calls for new elections should be expected in the near term, and remarked that Gyurcsany "might not be able to survive" either the March commemoration of the 1848 revolution or the public referenda on elements of the government's austerity package possible in the fall.

WHAT MAKES VIKTOR RUN?

¶18. (C) Comment: This was a vintage Orban performance: confident, in command of the facts, and calibrated to his audience. He has gradually recognized that reform is necessary, but is now deftly focusing the debate on the government's commitment and its competence. With equivocal signals from the PM on the timing of future steps and a

faltering start on health care reform, FIDESZ officials foresee a "third wave" of opposition to the government. Orban's comments also reflect his latest (if not his last) attempt to find a resonant theme, this time by melding populism and trans-Atlanticism into a coherent - or at least marketable - message. The challenge will be presenting solutions to the problems he is (rightly) highlighting. FIDESZ is professing its desire to engage substantively on the issues, and Parliamentary Speaker Katalin Szili tells us she is working to encourage bipartisan cooperation in Parliament. By contrast, MDF leader Ibolya David tells us FIDESZ is already hard at work preparing to "make March worse than October." FIDESZ has the opportunity to take a step back toward the constitutional fold and perhaps take an important step toward Hungary's next elections if they are prepared to serve their revenge cold. Although Orban noted at one point that he "sometimes wishes I could just turn down the volume (of Hungarian politics)," he later admitted that it is still "the pressure that makes me run." Under criticism within his own party but still intent on opposing Gyurcsany at every turn, he will continue to respond to pressure - and to generate it - in the months ahead. End Comment.

FOLEY